SASKATCHEWAN GOVERNMENT GROWTH FUND MANAGEMENT CORPORATION

2007

June 30

Quarter Two Financial Report

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Creating economic wealth and diversification through investment of immigrant investor capital in Saskatchewan

INTRODUCTION

Mandate

The Saskatchewan Government Growth Fund Management Corporation (SGGF MC) was established in 1989 under Order-in-Council to create and manage investment funds that have been accepted as government administered venture capital funds under the Federal government's Immigrant Investor Program.

Vision

SGGF MC envisions the creation of economic wealth and diversification through investment of immigrant investor capital in Saskatchewan.

Mission

The mission of SGGF MC is to participate in the Federal government's Immigrant Investor Program for the purpose of acquiring relatively low cost capital for investment in the Saskatchewan economy on commercial terms, thereby creating wealth and diversification, while also ensuring a return of capital and nominal investment income to the immigrant investor.

Profile

SGGF MC participates in the federal government's Immigrant Investor Program (IIP). This program acquires lower cost capital for the commercial investment in Saskatchewan, providing small and medium-sized businesses with capital to grow and prosper, and thereby facilitating long-term economic growth and development for the Province.

The ability of SGGF MC to raise additional funds under the IIP ended on March 31, 1999, when a new Federal program was launched and SGGF MC declined to participate. In 2003, the fund companies were closed to new deposits and all investors were required to pay their subscriptions in full by December 15, 2003. The capital currently under management and from the three funds launched in 1999 will require administration for at least the next five years.

SGGF MC manages eight government administered venture capital funds under the old IIP, specifically:

Saskatchewan Government Growth Fund Ltd. (SGGF I);
Saskatchewan Government Growth Fund II Ltd. (SGGF II);
Saskatchewan Government Growth Fund III Ltd. (SGGF III);
Saskatchewan Government Growth Fund IV Ltd. (SGGF IV);
Saskatchewan Government Growth Fund V (1997) Ltd. (SGGF V);
Saskatchewan Government Growth Fund VI Ltd. (SGGF VI);
Saskatchewan Government Growth Fund VII Ltd. (SGGF VII); and,
Saskatchewan Government Growth Fund VIII Ltd. (SGGF VIII).

SGGF fund companies have provided an important source of venture capital financing in Saskatchewan to assist in economic development in the Province.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Second Quarter Results

SGGF MC's consolidated loss for the six months ending June 30, 2007 of $26.4 thousand has decreased from its comparative period in 2006 (net loss of $100.3 thousand) by $73.9 thousand. The decrease in net loss is due to a decrease in operating expenditures as the funds continue to wind down. SGGF MC continues to experience decreases in management revenue as assets in the fund companies continue to be disposed.

Management fee revenue for the first six months of 2007 was $453.3 thousand, down $260.4 thousand from the same period in 2006. Management fee revenue consists of two components. The first component is a recovery of investment management fees. The second component is a modest mark-up on these management fees used to fund administrative expenditures that are not charged back to the Fund companies. Based on a designed plan to reduce costs to the fund companies as they continue to wind down, the markup on management fees was reduced from 4% to 2% effective January 1, 2007. Fund manager fees declined by $231.5 thousand in 2007, over the same period in 2006, resulting in a commensurate decline in management fee revenue. Management fees are declining due to a decrease in the asset base on which the fund management fee is calculated. As SGGF Fund companies continue to wind-down operations SGGF MC will continue to experience revenue reductions.

In addition to declining Fund manager fee expense, legal and professional fees of $181.4 thousand were $12.7 thousand lower than the comparative period expenses in 2006 primarily due to reduced volume of investment management activities.

Outlook

SGGF MC expects to have a small loss in 2007, consistent with the corporations goal to use some of its cash resources to achieve an effective wind down of its Fund companies.

SGGF MC will continue to closely monitor its costs to ensure appropriate cash resources to meet financial obligations as the Funds continue to wind down operations.

Key Factors Affecting Performance

- Ability of the fund companies to liquidate their investment portfolios at values and in the timeframe necessary to provide for full repayment of investor capital at maturity.
- Ability of the fund companies to recover their costs of operation from the revenues earned on investment funds under management.
- SGGF operates primarily on a cost-recovery basis and hence operates at or near break-even.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (unaudited)
As At

	June 30 2007	December 31 2006
Assets		
Current		
Cash and short-term deposits	$ 3,031,867	$ 3,327,435
Accounts receivable	10,216	54,921
	3,042,083	3,382,356
Investments – held for trading (Note 3)	164,207	96,182
Investments in Fund companies	8,000	8,000
	$ 3,214,290	$ 3,486,538
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 232,333	$ 478,204
Site restoration liability	200,000	200,000
	432,333	678,204
Province of Saskatchewan's Equity		
Equity advances	1,031	1,031
Retained earnings	2,780,926	2,807,303
	2,781,957	2,808,334
	$ 3,214,290	$ 3,486,538

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS
(unaudited)
For the Period Ended

	2007		2006	
	April 1 To June 30	**January 1 To June 30**	April 1 To June 30	January 1 To June 30
Revenue				
Management fees	**$ 139,958**	**$ 453,279**	$ 342,408	$ 713,702
Interest and other income	**100,498**	**131,143**	24,270	45,031
	240,456	**584,422**	366,678	758,733
Expenses				
Fund manager fees	**170,393**	**386,941**	287,256	618,466
General administration	**1,095**	**2,459**	657	1,633
Legal fees and professional fees	**96,038**	**181,380**	130,582	194,033
Directors fees and expenses	**15,273**	**40,019**	34,750	44,866
	282,799	**610,799**	453,245	858,998
Net loss	**(42,343)**	**(26,377)**	(86,567)	(100,265)
Retained earnings, beginning of period	**2,823,269**	**2,807,303**	3,702,995	3,716,693
Retained earnings, end of period	**$ 2,780,926**	**$ 2,780,926**	$ 3,616,428	$ 3,616,428

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)
For the Period Ended

	2007		2006	
	April 1 To June 30	**January 1 To June 30**	April 1 To June 30	January 1 To June 30
Operating activities				
Net loss	**$ (42,343)**	**$ (26,377)**	$ (86,567)	$ (100,265)
Net change in market value of investments	**(3,873)**	**(68,025)**	-	-
Net change in non-cash working capital balances related to operations	**(85,851)**	**(201,166)**	(66,946)	30,640
Cash used in operating activities	**(132,067)**	**(295,568)**	(153,513)	(69,625)
Net decrease in cash during the period	**(132,067)**	**(295,568)**	(153,513)	(69,625)
Cash position, beginning of period	3,163,934	3,327,435	2,659,910	2,576,022
Cash position, end of period	**$ 3,031,867**	**$ 3,031,867**	$ 2,506,397	$ 2,506,397

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Status of the Corporation

Saskatchewan Government Growth Fund Management Corporation (the Corporation) was established for the purpose of creating and managing fund companies that have been accepted as government administered venture capital funds under the Federal government's Immigrant Investor Program.

These consolidated financial statements include the accounts of the Corporation and its subsidiary, Saskatchewan Government Growth Fund Ltd. (SGGF I). All inter-company transactions have been eliminated on consolidation. The statements are unaudited.

2. Summary of significant accounting policies

The interim financial statements do not include all of the disclosures included in the Corporation's annual consolidated financial statements. Accordingly, these interim financial statements should be read in conjunction with the Corporation's most recent annual consolidated financial statements released on April 25, 2007.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The timely preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Actual results could differ from those estimates which may impact the actual transactions and events reported in future periods.

The accounting policies used in the preparation of these interim financial statements conform with those used in the Corporation's most recent annual consolidated financial statements.

3. Investments

Investments have been designated as held for trading. Changes in market value of investments are recorded in interest and other income in the Consolidated Statement of Operations and Retained Earnings.